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GORE-CHERNOMYRDIN COMMISSION

VICE PRESIDENT'S TALKING POINTS FOR

REPORT OF VICE CHAIRMEN

(Secretary Brown and Deputy Prime Minister Davydov)
and

REPORT OF BUSINESS DEVELOPMENT COMMITTEE and OMBUDSMEN

(Deputy Prime Minister Davydov, Secretary Brown,
and Ombudsmen Kalicki, Drozdov and Shatalov)

INTRODUCTION

- The September Summit in Washington placed commercial ties at the center of the U.S.-Russian relationship. For the first time, President Clinton and President Yeltsin involved the private sector in their Summit discussions, and they signed a Joint Statement creating a "Partnership for Economic Progress."
- This Partnership confirms the central role of commercial cooperation, especially private sector activity, in building a strong U.S.-Russian relationship. It also outlines steps which our Joint Commission must oversee. These developments confirm the vision of President Clinton and President Yeltsin in establishing our Commission when they met in Vancouver, and they give added impetus to our work.
- During the course of this year, our bilateral trade has continued to grow. The most dramatic development is the spectacular growth of Russian exports to the United States. These shipments have risen 80 percent, reaching \$2.1 billion in the first nine months of this year. For the first time ever, Russian exports to the United States exceed U.S. exports to Russia.
- U.S. companies, encouraged by Secretary Brown's Presidential Business Development Mission to Russia, have continued to open new offices in Russia and to be the leaders in foreign investment in Russia.
- Undoubtedly the single most important factor in this forward movement has been your leadership, Mr. Prime Minister, along with President Yeltsin, in steadfastly pursuing a reform-oriented economic policy which has bolstered the confidence of the Western private sector.

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Private sector business confidence is one of our most precious commodities. We must protect it and strengthen it. There are a number of things which we can do together.

- Implementation of the Joint Oil and Gas Report, which the Business Development Committee presented to our Commission in June, will encourage foreign investors to proceed with billions of dollars in investment in Russia. Your announcement of exemptions to the oil export tax, including for 4 joint ventures with U.S. companies, is already widely viewed as a significant step forward. Now is the time to agree on a plan for implementation of further steps.

- The early success of major commercial projects will be an extremely important. Western companies carefully monitor each others' actions, and news of business successes or failures travels exceedingly fast. This is why we must do everything we can to facilitate projects such as those developed by Mars, General Motors, United Technologies and Texaco with Russian partners and the many other projects brought to our attention. Their success is crucial to the success of our Commission.

More broadly, our Commission must take responsibility for moving to create a strategic economic partnership.

- Ratification of our Bilateral Investment Treaty will demonstrate concretely Russia's commitment to attracting foreign investment, and will serve as a tool which we can use together to build closer commercial ties between our private sectors.
- The obligations set in the Treaty will greatly enhance our bilateral economic relationship. We hope that you will do everything in your power to ensure that the Duma ratifies the Treaty as soon as possible.
- Negotiation of Russian accession to the GATT/WTO will be a crucial step in bringing Russia and the United States closer to free trade. The obligations which Russia will undertake in becoming a GATT/WTO member will serve as a strong foundation for our economic partnership. We are strongly supporting Russia's accession process.
- At the same time, we will also pursue our commitment to work with the U.S. Congress to reflect in legislation Russia's status as an economy in transition, which was conferred on Russia by the "Partnership for Economic Progress" Joint Statement signed at the Summit in September.
- Reduction of barriers to trade and investment in Russia, such as high tariffs, will be essential to maintain existing, but fragile trade, as well as to build on our bilateral commercial relations and help integrate Russia into

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the world trading system.

- I look forward now to hearing the reports of our Vice Chairmen, the BDC Cochairmen, and our Ombudsmen.

COMMENTS ON CONCLUSION OF THE REPORTS OF THE VICE CHAIRMEN,
BDC COCHAIRMEN, AND THE OMBUDSMEN

- It is clear from the reports of the Business Development Committee and the Ombudsmen that our Commission has succeeded in creating a joint government mechanism to help our private sectors build a strategic commercial partnership. We must do whatever we can to enable them to complete their work even faster.

- A reasonable and predictable tax regime is perhaps the number one concern of foreign companies trying to trade and invest in Russia. I believe that our Commission should support the initiative of the Business Development Committee in launching a bilateral commercial tax dialogue. Such a dialogue can be extremely useful in channeling the input of the private sectors of both Russia and the United States. After all, they are the ones who must act, if Russia's economy is to be revitalized.

- I further urge that we approve the Business Development Committee's plan for implementing their Joint Report on tax and other measures to foster investment in Russia's oil and gas industry.

- Secretary Brown has also brought to our attention two important opportunities: to clear the way for implementation of the Eximbank Oil and Gas Framework Agreement and to implement the Eximbank-Gazprom Memorandum of Understanding as quickly as possible. This is an opportunity to finance several billion of dollars of trade in a very short time. I hope that the Russian government will be able to take implementing measures as soon as possible.

- If our Commission can speedup the implementation of visible oil and gas and other commercial projects and help keep others from failing, we will be creating the climate for success. Here we need to ensure that our Ombudsmen have our full support.

- Russian Parliamentary approval of the Bilateral Investment Treaty will send a strong signal to American companies debating whether to invest in the Russian market, rather than other markets which may have more predictable legal frameworks, such as in Latin America and the Far East. I hope you will make it clear to the Duma that this is a priority.

- As Secretary Brown has pointed out, we appreciate your government's efforts to reduce tariff burdens for U.S. interests on a case-by-case basis. We hope that you will continue to provide such solutions in a GATT-consistent manner for items of

importance to U.S. exporters.

- Only a structural, longterm reduction of tariffs and other trade and investment barriers, however, will enable Russia to attract the level of trade and investment needed for strong economic growth, and enable both our countries to build a truly effective economic partnership.
- As part of this process, our trade negotiators look forward to working productively with you on tariff and market access issues in the context of your accession to the GATT/WTO.
- Let me also reinforce what Secretary Brown said about intellectual property protection (IPR). Russia has made a great deal of progress in this area and carried out commitments in our bilateral Trade Agreement.
- However, violations of intellectual property rights in Russia, especially high levels of film and video piracy, are matters of serious concern. Our film industry says that it will have to eliminate all investments in Russia if these problems continue.
- We hope that you will be able to use your influence to ensure rapid implementation of civil and criminal penalties in this area. We also hope that you will be able to eliminate the Russian distribution fee on foreign films and videos.
- We have taken significant strides this past year, thanks to your forward-looking policies, Mr. Prime Minister, and to the cooperative spirit shared by Russian and American firms. Our Vice Chairmen and the Business Development Committee have now pointed us toward further steps.

POINTS FOR DISCUSSION

Crime:

- Unfortunately, our newspapers and our companies report that crime is becoming an increasing problem in Russia, and even hindering trade growth. The United States is offering Russia technical assistance and cooperation in fighting crime. I also know that American companies and their Russian partners would be grateful for any assistance we can give in preventing this problem from hindering the growth of our commercial relations, and I suggest that we put this on our priority agenda.

Telecommunications market access in Russia and U.S. export controls:

- U.S. firms can make a tremendous contribution to Russian telecommunications infrastructure. This is why Secretary Brown selected telecommunications as a priority sector for the Presidential Business Development Mission.
- President Clinton has responded to a request from President Yeltsin and lifted restrictions on the sale to Russia of virtually all U.S. telecommunications

equipment.

- However, U.S. telecommunications firms have encountered severe problems in providing equipment and services to Russia. For example, a recent Ministry of Communications decree limits the number of foreign toll and gateway switch suppliers that can sell in the Russian market. Also, testing and certification procedures are inordinately long, costly and not transparent.
- We want to work with you in building a first class telecommunications infrastructure throughout Russia, and to help Russia integrate into the Global Information Infrastructure. But for this to happen, it is essential that barriers to business cooperation be removed.

CONTINGENCY TALKING POINTS

Economy in Transition:

- Earlier this year, the Administration proposed legislation which would have created a special category of countries, economies in transition. Under the proposal, imports from Russia and other such economies would have been exempt from the U.S. antidumping law and, instead an injury-based remedy would have been applied.
- Unfortunately, the legislation was not included by the Congress in this year's trade bill. One reason was that some Congressmen felt that they should focus only on items important to the Uruguay Round.
- We will work with the Congress this year to obtain new legislation.

Antidumping:

- We understand the urgency for Russia of rapidly building its hard currency exports. Trade should be a "two-way street" in any case.
- In fact, our imports from Russia grew 260% in 1993, a stunning rate. And in the first nine months of 1994, our imports from Russia, of \$2.1 billion, exceeded our exports to Russia, of \$2.0 billion.
- As these figures demonstrate, U.S. antidumping laws are important, but they are not preventing dramatic growth of Russian exports to the United States.
- The Department of Commerce is offering to work even more closely with Russian government officials, producers and exporters to ensure that all procedural and methodological aspects of antidumping investigations are understood. The goal is to produce accurate findings, which are likely to be in best interest of both countries.

- Large dumping margins have often resulted, in part, from failure by Russian enterprises to respond to Commerce's antidumping questionnaire. We already have one positive example. In the current magnesium cases, where meetings were held with the Ministry of Foreign Economic Relations and the Russian exporters concerned, the preliminary antidumping duty determination was relatively low.

Uranium:

- In September and October, Commerce approved the first two matched sales between U.S. and Russian uranium producers under our agreement. We are encouraged by these successful matched sales and anticipate approving additional matched sales in the future.
- As you may know, U.S. petitioners have filed a legal challenge to the amended agreement, and several uranium-producing countries have voiced concern that it will adversely affect their access to, and ability to compete in, the U.S. market. However, Commerce is confident that the amended agreement is consistent with both U.S. trade laws and the international obligations of the United States.
- Commerce and MinAtom have expressed their continued commitment to ensuring that the agreement's anti-circumvention provisions are complied with and are strictly enforced.

Jackson-Vanik:

- Mr. Prime Minister, you and I have already had some private discussions on the issues which have moved to the front of our bilateral economic agenda. I want to emphasize here that the United States, like Russia, is determined to make real progress. This includes your interest in economy in transition status and graduation from the Jackson-Vanik Amendment.
- President Clinton's determination that Russia is in full compliance with Title IV requirements is a positive and essential first step toward graduation. We want to move ahead, and will begin to discuss next steps with the new Congress.

Free Trade Area:

Renewal or Negotiation of New Trade Agreement:

- A provision in our existing bilateral Trade Agreement provides for automatic extension of the Agreement for three years, and we should see that this happens in any case. As Russia proceeds to the GATT, it would seem unnecessary to negotiate a new bilateral agreement. It is the hope of the United States to move to a trade relationship with Russia governed by the GATT as we have with our other important trade partners.

Small Arms:

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- Based on indications that munitions imports were about to rise dramatically, the Administration has suspended procession of applications for imports from the republics of the former Soviet Union and from China. We have asked the State Department to conduct a thorough review and make recommendations.

- This is a very sensitive issue, because of increasing concerns in the United States about crime and because the Administration supported new legislation aimed at dealing reducing crime. In this situation, a sudden and rapid increase in imports of firearms would be extremely counterproductive.

- During the review, careful consideration will be given to concerns raised by the Russian government about nondiscriminatory treatment and about the need for employment of workers in former defense enterprises.

Participation in U.S. Government Procurement:

- Under long-established policy, bidding on U.S. Government procurement opportunities is limited to signatories of the GATT procurement code. This is just one more reason why Russia will benefit from acceding to GATT. While there have been exceptions, including one last year for Russian railroad cars, these are very rare.

- In the meantime, the Commerce Department and other agencies are assisting the Russian Trade Representation in obtaining information on U.S. procurement policies and regulations, including on questions of working with third party contractors.

GUIDANCE FOR THE FUTURE

- One important channel for the future work of the Commission is greatly increased contacts with the legislative branches of the U.S. and Russian governments. This is particularly important in the commercial sphere, where new laws will determine in large part Russia's success in attracting billions of dollars in foreign investment.

- We are happy to have more contact with Russia's Federal Assembly, and we want to bring about increased contact between your government and the U.S. Congress.

